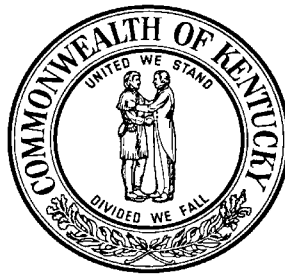


**REPORT OF THE AUDIT OF THE
GRAVES COUNTY
SHERIFF'S SETTLEMENT - 2000 TAXES**

April 27, 2001



**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Tony Smith, Graves County Judge/Executive
Honorable John L. Davis, Graves County Sheriff
Members of the Graves County Fiscal Court

The enclosed report prepared by Kapp & Company, PLLC, Certified Public Accountants, presents the Graves County Sheriff's Settlement - 2000 Taxes.

We engaged Kapp & Company, PLLC to perform the financial audit of this statement. We worked closely with the firm during our report review process; Kapp & Company, PLLC evaluated the Graves County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Enclosure



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
GRAVES COUNTY
SHERIFF'S SETTLEMENT - 2000 TAXES**

April 27, 2001

EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
GRAVES COUNTY
SHERIFF'S SETTLEMENT - 2000 TAXES**

April 27, 2001

Kapp & Company, PLLC, has completed the audit of the Sheriff's Settlement - 2000 Taxes for Graves County Sheriff as of April 27, 2001. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$6,054,765 for the districts for 2000 taxes. The Sheriff distributed taxes of \$5,798,005 to the districts for 2000 Taxes. Taxes of \$4 are due to the districts from the Sheriff and refunds of \$3,093 are due to the Sheriff from the taxing districts.

Report Comment:

- The Sheriff Should Have Required The Depository Institution To Pledge Or Provide Additional Collateral Of \$229,583 And Entered Into A Written Agreement To Protect Deposits

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Kapp & Company, PLLC
Certified Public Accountants &
Business Advisors

To the People of Kentucky
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Members of the Graves County Fiscal Court

Independent Auditor's Report

We have audited the Graves County Sheriff's Settlement - 2000 Taxes as of April 27, 2001. This tax settlement is the responsibility of the Graves County Sheriff. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in the Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Graves County Sheriff's taxes charged, credited, and paid as of April 27, 2001, in conformity with the modified cash basis of accounting.

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Tony Smith, Graves County Judge/Executive
Honorable John L. Davis, Graves County Sheriff
Members of the Graves County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated September 30, 2002, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment.

- The Sheriff Should Have Required The Depository Institution To Pledge Or Provide Additional Collateral Of \$229,583 And Entered Into A Written Agreement To Protect Deposits

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Kapp & Company, PLLC".

Kapp & Company, PLLC

Audit fieldwork completed -
September 30, 2002

GRAVES COUNTY
JOHN L. DAVIS, SHERIFF
SHERIFF'S SETTLEMENT - 2000 TAXES

April 27, 2001

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 718,152	\$ 773,109	\$ 1,878,408	\$ 1,163,901
Tangible Personal Property	111,202	94,182	317,468	418,403
Intangible Personal Property				143,051
Fire Protection	697			
Franchise Corporation Taxes	134,532	147,191	342,064	
Additional Billings	2,385	2,268	3,128	6,894
Bank Franchise Taxes	100,507			
Penalties	6,595	7,026	18,276	11,472
Adjusted to Sheriff's Receipt	(9,550)	(9,559)	(35,868)	(16,281)
Gross Chargeable to Sheriff	<u>\$ 1,064,520</u>	<u>\$ 1,014,217</u>	<u>\$ 2,523,476</u>	<u>\$ 1,727,440</u>
<u>Credits</u>				
Exonerations	\$ 4,338	\$ 4,519	\$ 12,137	\$ 7,864
Discounts	14,215	12,716	31,779	26,394
Delinquents:				
Real Estate	21,695	23,593	52,621	35,159
Tangible Personal Property	2,127	1,841	4,975	7,598
Intangible Personal Property				2,857
Uncollected Franchise Taxes	1,565	1,540	5,355	
Total Credits	<u>\$ 43,940</u>	<u>\$ 44,209</u>	<u>\$ 106,867</u>	<u>\$ 79,872</u>
Net Tax Yield	\$ 1,020,580	\$ 970,008	\$ 2,416,609	\$ 1,647,568
Less: Commissions *	<u>43,662</u>	<u>40,332</u>	<u>96,664</u>	<u>70,309</u>
Net Taxes Due	\$ 976,918	\$ 929,676	\$ 2,319,945	\$ 1,577,259
Taxes Paid	976,417	928,760	2,316,991	1,575,837
Refunds (Current and Prior Year)	<u>1,000</u>	<u>995</u>	<u>5,205</u>	<u>1,682</u>
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ (499)</u>	<u>\$ (79)</u>	<u>\$ (2,251)</u>	<u>\$ (260)</u>

* and ** See Page 4

GRAVES COUNTY
 JOHN L. DAVIS, SHERIFF
 SHERIFF'S SETTLEMENT - 2000 TAXES
 April 27, 2001
 (Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	3,600,669
4% on	\$	2,416,609
1% on	\$	27,485

** Special Taxing Districts:

Library District	\$	(10)
Health District		3
J. U. Kevil		1
Watershed District #1		(1)
Symsonia Fire		(72)

Due Districts or (Refunds Due Sheriff)	\$	<u>(79)</u>
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GRAVES COUNTY
NOTES TO FINANCIAL STATEMENT

April 27, 2001

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with one depository institution and met the above requirements. However, funds invested in a second financial institution were not fully secured resulting in a maximum exposure of \$229,583 of public funds uninsured and unsecured as of December 31, 2000.

GRAVES COUNTY
 NOTES TO FINANCIAL STATEMENT
 April 27, 2001
 (Continued)

Note 2. Deposits (Continued)

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of December 31, 2000.

	<u>Bank Balance</u>
FDIC Insured	\$ 100,000
Uncollateralized and uninsured	<u>229,583</u>
Total	<u>\$ 329,583</u>

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2000. Property taxes were billed to finance governmental services for the year ended June 30, 2001. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 5, 2000 through April 27, 2001.

Note 4. Interest Income

The Graves County Sheriff earned \$4,383 as interest income on 2000 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Graves County Sheriff collected \$37,026 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Graves County Sheriff collected \$3,990 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The advertising fees will be used to operate the Sheriff's office.

COMMENT AND RECOMMENDATION

GRAVES COUNTY
JOHN L. DAVIS, SHERIFF
COMMENT AND RECOMMENDATION

April 27, 2001

The Sheriff Should Have Required The Depository Institution To Pledge Or Provide Additional Collateral Of \$229,583 And Entered Into A Written Agreement To Protect Deposits

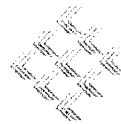
The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). During the period ended April 27, 2001, the Sheriff had a maximum bank balance of \$969,288; FDIC insurance of \$100,000; and collateral pledged or provided of \$2,000,000 at one financial institution. However, as of December 30, 2000, at a second financial institution \$229,583 of the Sheriff's deposits of public funds were uninsured and unsecured. We recommend the Sheriff require the depository institution to pledge enough collateral to protect the deposits. We also recommend that the Sheriff enter into a written agreement with the depository institution to secure the Sheriff's interest in the collateral pledged or provided by the depository institution. According to federal law 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Sheriff's Response:

Already in compliance.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



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Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Graves County Sheriff's Settlement - 2000 Taxes as of April 27, 2001, and have issued our report thereon dated September 30, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Graves County Sheriff's Settlement - 2000 Taxes as of April 27, 2001 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying comment and recommendation section.

- The Sheriff Should Have Required The Depository Institution To Pledge Or Provide Additional Collateral Of \$229,583 And Entered Into A Written Agreement To Protect Deposits

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Graves County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in cursive script that reads "Kapp & Company, PLLC".

Kapp & Company, PLLC

Audit fieldwork completed -
September 30, 2002

